

September 2007

DEFENSE BUSINESS TRANSFORMATION

Achieving Success
Requires a Chief
Management Officer
to Provide Focus and
Sustained Leadership



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Highlights of [GAO-07-1072](#), a report to congressional committees

Why GAO Did This Study

In 2005, GAO added the Department of Defense's (DOD) approach to business transformation to its high-risk list because (1) DOD's improvement efforts were fragmented, (2) DOD lacked an integrated and enterprisewide business transformation plan, and (3) DOD had not designated a senior official at the right level with the right authority to be responsible for overall business transformation efforts. This report assesses (1) the progress DOD has made in setting up a management framework for overall business transformation efforts and (2) the challenges DOD faces in maintaining and ensuring the success of those efforts. GAO conducted this work under the Comptroller General's authority to conduct evaluations under his own initiative. In conducting its work, GAO compared DOD's actions to key practices of successful transformations.

What GAO Recommends

GAO recommends that DOD (1) institutionalize an expanded management framework and (2) develop a planning process that results in an integrated and enterprisewide plan or set of plans. Congress should consider enacting legislation to establish a chief management officer (CMO) at DOD. DOD generally agreed with GAO's recommendations, but did not agree with the matter for Congress. GAO continues to believe that DOD needs a CMO, established in statute, to provide focus and sustained leadership.

www.gao.gov/cgi-bin/getrpt?GAO-07-1072.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sharon Pickup at (202) 512-9619 or pickups@gao.gov.

DEFENSE BUSINESS TRANSFORMATION

Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership

What GAO Found

Although DOD has made progress toward establishing a management framework for overall business transformation, the framework currently focuses on business systems modernization and does not fully address broader business transformation efforts. In 2005, DOD set up the Defense Business Systems Management Committee to review and approve the business enterprise architecture—a transformation blueprint—and new business systems modernization investments. It also established the Business Transformation Agency, which currently reports to the Vice Chair of the Defense Business Systems Management Committee, to coordinate and lead business transformation across the department. Despite these steps, DOD has not clearly defined or institutionalized interrelationships, roles and responsibilities, or accountability for establishing a management framework for overall business transformation. For example, differences of opinion exist within DOD about the roles of various senior leadership committees. Until DOD's business transformation management framework is institutionalized and encompasses broad responsibilities for all aspects of business transformation, it will be challenging for DOD to integrate related initiatives into a sustainable, enterprisewide approach to successfully resolve weaknesses in business operations that GAO has shown are at high risk of waste, fraud, and abuse.

DOD also must overcome two critical challenges, among several others, if it is to maintain and ensure success. Specifically, DOD does not have (1) a comprehensive, integrated, and enterprisewide plan or set of linked plans, supported by a planning process that sets a strategic direction for overall business transformation efforts, prioritizes initiatives and resources, and monitors progress, and (2) a full-time leadership position at the right level dedicated solely to the planning, integration, and execution of overall business transformation efforts. A broad-based consensus exists among GAO and others, including the Institute for Defense Analyses and the Defense Business Board, that the status quo is unacceptable and that DOD needs a CMO to provide leadership over business transformation efforts. In a May 2007 letter to Congress, however, DOD stated its view that a separate position is not needed as the Deputy Secretary of Defense can fulfill the CMO role. Although the Deputy Secretary may be at the right level with appropriate authority to transform business operations, the demands placed on this position make it difficult for the Deputy Secretary to focus solely on business transformation—nor does the position have the necessary term of appointment to sustain progress across administrations. Further, DOD plans to leave the assignment of the CMO role to the discretion of the Secretary of Defense. In GAO's view, codifying the CMO position in statute as a separate, full-time position at the right level with an extended term is necessary to provide sustained leadership, further DOD's progress, and address challenges the department continues to face in its business transformation efforts.

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United States Government Accountability Office
Washington, DC 20548

September 5, 2007

Congressional Committees

The Department of Defense (DOD) spends billions of dollars to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapons systems acquisition. However, we have reported for years that weaknesses in these business operations result in billions of dollars being wasted, reduced efficiencies, ineffective performance, inadequate accountability, and lack of transparency.¹ Currently, DOD bears responsibility, in whole or in part, for 15 of the federal government's 27 programs or activities that we have identified as being at high risk of waste, fraud, abuse, and mismanagement. Specifically, in 2005, we identified DOD's approach to overall business transformation as a high-risk area because (1) DOD's improvement efforts and control over resources are fragmented, (2) DOD lacks an integrated and enterprisewide business transformation plan, and (3) DOD has not designated a senior official at the right level with the right authority to be responsible and accountable for business transformation. Accordingly, DOD's business area weaknesses result in inadequate accountability to Congress and the American people, wasting billions of dollars each year at a time when DOD is competing for resources in an increasingly fiscally constrained environment. Our nation is not only threatened by external security threats but also from within by growing fiscal imbalances primarily due to our aging population and rising health care costs. As a result, it is important that DOD get the most from every dollar it invests.

¹See for example, GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: January 2007); *Defense Business Transformation: A Comprehensive Plan, Integrated Efforts, and Sustained Leadership Are Needed to Assure Success*, [GAO-07-229T](#) (Washington, D.C.: Nov. 16, 2006); *Department of Defense: Sustained Leadership Is Critical to Effective Financial and Business Management Transformation*, [GAO-06-1006T](#) (Washington, D.C.: Aug. 3, 2006); *DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, [GAO-05-520T](#) (Washington, D.C.: Apr. 13, 2005); and *DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform*, [GAO-02-497T](#) (Washington, D.C.: Mar. 6, 2002).

We have long advocated the need for a chief management officer (CMO) at DOD with significant authority and experience and a term of office that would focus the necessary attention on enterprisewide business transformation and sustain progress across administrations. Within DOD, business transformation is broad, encompassing people, planning, management, structures, technology, and processes in several key business areas. Our previous work has shown that two key practices—a comprehensive, integrated, and enterprisewide plan and focused and sustained leadership—are at the center of successful organizational transformation.² These practices can serve as a basis for federal agencies such as DOD, which seek to transform their cultures and business operations, to become more results-oriented, customer-focused, and collaborative in nature. The Deputy Secretary of Defense establishes the overall strategic direction and priorities for business transformation, according to a DOD directive. Recent initiatives started under the Deputy Secretary's leadership hold potential to improve DOD's business operations; however, concerns remain about DOD's ability to sustain and ensure the success of overall business transformation efforts and related management reform initiatives across administrations in the absence of a CMO who is focused full time and over the long term on defense business transformation efforts.

The Fiscal Year 2006 National Defense Authorization Act directed DOD to commission one or two studies on the feasibility and advisability of establishing a Deputy Secretary of Defense for Management to serve as a CMO at DOD, and required the results of each study to be reported to Congress.³ The studies were to examine the effects of establishing a CMO, the appropriate relationship between the CMO and other defense officials, and the appropriate term of service. The Institute for Defense Analyses and the Defense Business Board conducted CMO studies at the behest of DOD and concluded that a CMO in some form was needed at the department to focus on integration and enterprisewide business transformation. In a May 11, 2007, letter to Congress, however, DOD recommended that the Deputy Secretary of Defense serve as the CMO for the department and further stated that DOD would formalize the Deputy Secretary's CMO role and transformation duties in a DOD directive. As of July 2007, both the House and Senate Armed Services Committees had introduced legislation that would require DOD to provide increased

²See for example, [GAO-07-310](#), [GAO-07-229T](#), [GAO-06-1006T](#), and [GAO-05-520T](#).

³National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, § 907 (2006).

leadership and direction over its business transformation efforts. While each committee has taken a different approach, both committees agree that the status quo at DOD is unacceptable.

We performed this review under the authority of the Comptroller General to conduct evaluations on his own initiative to contribute to the ongoing discussion on the need for overall business transformation and a CMO at DOD. Specifically, our two objectives were to assess (1) the progress DOD has made in establishing a management framework for overall business transformation and (2) the challenges DOD faces in maintaining and ensuring the success of those efforts.

To assess the progress DOD has made in its business transformation efforts, we reviewed and analyzed relevant documents and plans, interviewed key DOD senior leaders and defense experts, and reviewed current literature about the department's business transformation efforts. These included DOD's 2006 Quadrennial Defense Review, updates to DOD's enterprise transition plan, DOD's annual reports on business transformation to Congress, and meeting minutes and briefing documents from various DOD boards and committees. To assess the challenges DOD faces in maintaining and building upon this progress, we reviewed documentation and interviewed DOD officials involved in DOD's business transformation efforts. We also compared DOD progress against key practices we have found to be at the center of successful organizational mergers and transformations.⁴ See appendix I of this report for a more detailed discussion of our scope and methodology. We conducted our work from September 2006 through July 2007 in accordance with generally accepted government auditing standards.

Results in Brief

Although DOD has made progress toward establishing a management framework upon which to develop overall business transformation, the framework currently focuses on business systems modernization and does not fully address broader business transformation efforts. As part of its progress, the department has established new entities and developed various tools and plans for these entities to use in managing its business systems modernization efforts. For example, DOD established the Defense Business Systems Management Committee to review and approve the

⁴GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

defense business enterprise architecture—a transformation blueprint—and the obligation of funds for defense systems modernization. Further, DOD established the Business Transformation Agency to support the committee by, for example, coordinating and leading business transformation across the department. Despite these steps, DOD has not clearly defined or institutionalized interrelationships, roles and responsibilities, or accountability for establishing a management framework for overall business transformation. For example, differences of opinion within DOD exist regarding which of the various senior leadership committees within the department will function as the primary body responsible for overall business transformation. Until DOD's business transformation management framework is institutionalized and encompasses broad responsibilities for all aspects of business transformation, it will be challenging for DOD to integrate related initiatives into a sustainable, enterprisewide approach and to successfully resolve weaknesses in business operations that we have shown are at high risk of waste, fraud, and abuse.

DOD must overcome two critical challenges if it is to maintain and build upon the progress it has made toward achieving overall business transformation. First, DOD does not have a comprehensive, integrated, and departmentwide plan or set of linked plans supported by a planning process that sets a strategic direction for overall business transformation. This plan or set of plans should cover all key business functions and contain results-oriented goals, measures, and expectations that link organizational, unit, and individual performance goals, and also clearly link to DOD's overall investment plans. Second, DOD lacks a full-time leadership position at the right level dedicated solely to the planning, integration, and execution of business transformation efforts. Without this dedicated leadership, DOD's progress on business transformation is at risk of not being able to sustain and ensure the success of overall business transformation efforts across administrations. A broad-based consensus exists among GAO and others, including the Institute for Defense Analyses and the Defense Business Board, that the status quo is unacceptable and that DOD needs a CMO to provide leadership over business transformation efforts, although there are different views concerning the characteristics of a CMO, such as whether the position should be codified in statute, established as a separate position from the Deputy Secretary of Defense, designated as Executive Level II or Level III, subject to a term appointment, or supported by a deputy CMO. In a May 2007 letter to Congress, however, DOD outlined its position that the Deputy Secretary of Defense be designated as the CMO and plans to formalize this in a DOD directive. The department's letter also stated that codifying the CMO

duties would restrict the flexibility of future Presidents and Secretaries of Defense to build an integrated management team. Although the Deputy Secretary may be at the right level with appropriate authority to transform business operations, the demands placed on this position make it difficult for the Deputy to focus solely on business transformation—and the position does not have the necessary term in office to sustain progress across administrations.

We recommend that DOD institutionalize in directives the roles, responsibilities, and relationships among various business-related entities and committees and expand its management framework to capture overall business transformation efforts, rather than just business systems. In official comments on a draft of this report, DOD agreed with this recommendation and stated that the department is a strong advocate for institutionalizing in directives the functions, responsibilities, authorities, and relationships of its principal officials and the management processes they oversee. We also recommend that DOD develop a comprehensive, strategic planning process for business transformation that results in a comprehensive, integrated, and enterprisewide plan or set of plans. DOD partially concurred with this recommendation, stating that the department has already begun to expand the scope of the enterprise transition plan to become a more robust enterprisewide planning document and to evolve this plan into the centerpiece strategic document for transformation.

DOD did not agree with the matter for congressional consideration regarding the creation of a separate CMO position at DOD, stating that the Deputy Secretary of Defense is to be designated as the CMO, and that an internal directive is being revised to that effect. Among other things, DOD stated that the Deputy Secretary has sufficient officials available to help manage the department and the authority necessary to refine DOD's management structure to continue business management reform and integrate transformation activities. Further, DOD stated that establishing an additional official at the under secretary level to lead business transformation would generate dysfunctional competition among the five other Under Secretaries by creating confusion and redundancy in their roles and responsibilities. We recognize that the Deputy Secretary has officials and institutional structures available to support the transformation process; however, transformation cannot be achieved through a committee approach. Ultimately, a person at the right level, with the right type of experience, in a full-time position with a term appointment, and with the proper amount of responsibility, authority, and accountability, is needed to lead the effort. Further, contrary to DOD's view, we believe the establishment of a separate CMO position would

bring leadership, accountability, focus and direction to the department's efforts rather than creating competition and causing confusion. The CMO would not assume the responsibilities of the Under Secretaries of Defense or any other officials. Rather, the CMO would be responsible and accountable for planning, integrating, and executing the department's overall business transformation effort, and would be able to give full-time attention to business transformation. We believe DOD's position essentially represents the status quo and will, in fact, not adequately address the long-standing management weaknesses in DOD's business operations. In the interest of the department and American taxpayers, DOD needs a CMO to help transform its key business operations and avoid billions of dollars in waste each year. We, therefore, continue to believe that Congress should consider enacting legislation to establish a CMO to provide full-time focus and sustained leadership attention to DOD's business transformation efforts, and have retained the matter in our report. DOD's comments and our evaluation are discussed in detail in a later section of this report, and the department's comments are reprinted in appendix II.

Background

DOD is perhaps the largest and most complex organization in the world and spends billions of dollars each year to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapons systems acquisition. We have reported for years that inefficiencies in these business operations result in reduced efficiencies, ineffective performance, inadequate accountability, and lack of transparency. Despite various reform initiatives, DOD continues to face weaknesses in business operations that not only adversely affect the reliability of reported financial data, but also the economy, efficiency, and effectiveness of DOD's operations.

To address long-standing management problems, we began our "high-risk" program in 1990 to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public. Historically, high-risk areas have been designated because of traditional vulnerabilities related to their greater susceptibility to fraud, waste, abuse, and mismanagement. As our high-risk program has evolved, we have increasingly used the high-risk designation to draw attention to areas associated with broad-based transformation needed to achieve greater economy, efficiency, effectiveness, accountability, and sustainability of selected key government programs and operations. For example, we first added DOD's overall approach to business

transformation to our high-risk list in 2005 because DOD had not taken the necessary steps to achieve and sustain business reform on a broad, strategic, departmentwide, and integrated basis. Furthermore, DOD continues to dominate the high-risk list. Specifically, DOD currently bears responsibility, in whole or in part, for 15 of our 27 high-risk areas. Of the 15 high-risk areas, the 8 DOD-specific high-risk areas cut across all of DOD's major business areas. Table 1 lists the 8 DOD-specific high-risk areas. Also, as shown in table 1, many of these management challenges have been on the high-risk list for a decade or more. In addition, DOD shares responsibility for 7 governmentwide high-risk areas.⁵ Collectively, these high-risk areas relate to most of DOD's major business operations that directly support the warfighter, including how servicemembers get paid, the benefits provided to their families, and the availability and condition of the equipment they use both on and off the battlefield.

Table 1: Years When Specific DOD Areas on GAO's 2007 High-Risk List Were First Designated as High Risk

| Area | Year designated as high risk |
|--|------------------------------|
| DOD approach to business transformation | 2005 |
| DOD personnel security clearance program | 2005 |
| DOD support infrastructure management | 1997 |
| DOD business systems modernization | 1995 |
| DOD financial management | 1995 |
| DOD contract management | 1992 |
| DOD supply chain management | 1990 |
| DOD weapons systems acquisition | 1990 |

Source: GAO.

Congress passed legislation that codified many of our prior recommendations related to DOD business systems modernization; this includes the establishment of various bodies and plans. Also as required by Congress, DOD commissioned studies examining the feasibility and

⁵The seven governmentwide high-risk areas that DOD shares responsibility for are (1) strategic human capital management, (2) managing federal real property, (3) protecting the federal government's information systems and the nation's critical infrastructures, (4) ensuring the effective protection of technologies critical to U.S. national security interests, (5) management of interagency contracting, (6) establishing appropriate and effective information-sharing mechanisms to improve homeland security, and (7) modernizing federal disability programs.

DOD Has Made Progress in Establishing a Management Framework upon Which to Develop Overall Business Transformation, but the Framework Focuses on Business Systems Modernization

advisability of establishing a CMO to oversee the department's business transformation process. As part of this effort, the Defense Business Board, an advisory panel, examined various options and, in May 2006, endorsed the CMO concept. In December 2006, the Institute for Defense Analyses also endorsed the need for a CMO position at DOD. In May 2007, DOD submitted a letter to Congress outlining its position regarding a CMO at DOD, stating that the Deputy Secretary of Defense should assume the CMO responsibilities.

Although DOD has made progress in establishing a management framework upon which to develop overall business transformation efforts, this framework currently focuses on business systems modernization rather than broader business transformation efforts. Congress included provisions in the National Defense Authorization Acts for Fiscal Years 2005 and 2006⁶ to assist DOD in addressing financial management and business systems modernization challenges—two of our high-risk areas—and DOD's leadership has taken steps to comply with these provisions. For example, to improve financial management, DOD issued the initial Financial Improvement and Audit Readiness Plan in December 2005, which was last updated in June 2007, to guide financial improvement and financial audit efforts within the department. Also, to address its business systems modernization challenges, DOD has established the following:

- **Defense Business Systems Management Committee:** The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 required DOD to set up a committee to review and approve major updates of the defense business enterprise architecture—or transformation blueprint—and the obligation of funds for defense systems modernization. Prior to the enactment of this legislation, we reported that DOD had not established a governance structure and the process controls needed to ensure ownership and accountability of business systems investments.⁷ Subsequently, Congress directed DOD to establish the Defense Business Systems Management Committee to oversee DOD business transformation. In February 2005, the Deputy Secretary of Defense

⁶Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332 (2004) (codified in part at 10 U.S.C. §§ 186 and 2222), and National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, § 376 (2006).

⁷GAO, *DOD Business Systems Modernization: Improvements to Enterprise Architecture Development and Implementation Efforts Needed*, [GAO-03-458](#) (Washington, D.C.: Feb. 28, 2003).

chartered the Defense Business Systems Management Committee, which consists of senior defense military and civilian leaders. The Deputy Secretary of Defense serves as the chair of this committee and the Under Secretary of Defense for Acquisition, Technology, and Logistics serves as the vice chair of the committee. The committee is intended to establish strategic direction and plans for DOD's business mission, oversee implementation of systemic performance in DOD's business operations, approve business transformation plans and initiatives, ensure that funds are obligated for defense business systems modernization in accordance with the law, and recommend policies and procedures to the Secretary of Defense that enable efficient business operations throughout DOD.

- **Investment review boards:** The Ronald W. Reagan National Defense Authorization Act also required DOD to set up investment review boards to evaluate systems' consistency with the business enterprise architecture and to provide oversight of the investment review process for business systems. Prior to the establishment of investment review boards, we had reported that billions of dollars were being spent on business systems investments with little oversight.⁸ DOD established the investment review boards in 2005 to serve as the oversight and investment decision-making bodies for business system investments in their respective areas of responsibility. These boards assess modernization investments over \$1 million and determine how the investments will improve processes and support the warfighter.
- **Business Transformation Agency:** DOD established the Business Transformation Agency in October 2005 with the intent for it to support the Defense Business Systems Management Committee and coordinate business transformation by ensuring adoption of DOD-wide information and process standards as defined in the business enterprise architecture. The Business Transformation Agency reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics in his capacity as the vice chair of the Defense Business Systems Management Committee. The Business Transformation Agency's charter includes responsibilities such as identifying urgent warfighter needs that can be addressed by business solutions, articulating the strategic vision for business transformation, exercising executive oversight for DOD-wide programs, and implementing plans and tools needed to achieve DOD business transformation.

⁸[GAO-03-458](#).

In addition, the department has developed various tools and plans to enable these entities to manage its business systems modernization efforts. The tools and plans the Defense Business Systems Management Committee approves, the Business Transformation Agency implements, and the investment review boards use to assess compliance include the following:

- **Business enterprise architecture:** DOD's business enterprise architecture is a tool or a blueprint to guide and constrain investments in DOD organizations and systems as they relate to business operations. The business enterprise architecture provides the thin layer of corporate policies, capabilities, standards, and rules and focuses on providing tangible outcomes for a limited set of enterprise-level (DOD-wide) priorities, and the components are responsible under the department's tiered accountability approach for defining their respective component-level architectures that are aligned with the corporate business enterprise architecture. According to DOD, subsequent releases of the business enterprise architecture will continue to reflect this federated approach and will define enforceable interfaces to ensure interoperability and information flow to support decision making at the appropriate levels.
- **Enterprise transition plan:** DOD guidance states that the enterprise transition plan is intended to lay out a road map for achieving DOD's business transformation by implementing changes to technology, processes, and governance consistent with DOD's business enterprise architecture. According to DOD, the enterprise transition plan is intended to summarize all levels of transition planning information (milestones, metrics, resource needs, and system migrations) as an integrated product for communicating and monitoring progress—resulting in a consistent framework for setting priorities and evaluating plans, programs, and investments. The enterprise transition plan contains time-phased milestones, performance metrics, and a statement of resource needs for new and existing systems that are part of the business enterprise architecture. Business Transformation Agency officials said that they see the enterprise transition plan as the highest level plan for DOD business transformation. DOD released its first enterprise transition plan in September 2005. DOD updates the enterprise transition plan twice a year, once in March as part of DOD's annual report to Congress and once in September.

While our prior work has acknowledged this progress, we also have reported on limitations. For example, while the latest version of the business enterprise architecture focuses on DOD-wide corporate policies, capabilities, rules, and standards, which are essential elements to meeting

legislative requirements, this version has yet to be augmented by the DOD component organizations' subsidiary architectures that are also essential to meeting these requirements and the department's goal of having a federated family of architectures. While the latest version of the enterprise transition plan provides performance measures for the enterprise and component programs, including key milestones (such as initial operating capability), it does not include other important information needed to understand the sequencing of these business investments and does not address DOD's complete portfolio of business system investments. While the department has established and begun implementing the investment review structures and processes that are consistent with legislation, it has yet to fully define the related portfolio-based information technology investment management practices.⁹

Furthermore, DOD's efforts have been mainly focused on business systems modernization. During our review, we examined key documents, such as DOD's enterprise transition plan, business transformation guidance, and minutes from the meetings of the Defense Business Systems Management Committee, and our analysis found that DOD has not yet expanded the focus beyond business systems. In addition, DOD officials stated that the Defense Business Systems Management Committee has mainly focused on providing oversight for business systems investments, rather than overall business transformation efforts, because this is what legislation has required it to do. Similarly, DOD officials stated that the enterprise transition plan also is focused on business systems and does not provide enough detail about overall business transformation. DOD officials added that the Business Transformation Agency is also limited to focusing mainly on business systems because its role is to support the Defense Business Systems Management Committee, which primarily provides oversight for business systems initiatives as specified in the Ronald W. Reagan National Defense Authorization Act.

Additionally, DOD has not clearly defined or institutionalized interrelationships, roles and responsibilities, or accountability for

⁹See for example, GAO, *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, [GAO-07-860](#) (Washington, D.C.: July 27, 2007); *DOD Business Systems Modernization: Progress Continues to Be Made in Establishing Corporate Management Controls, but Further Steps Are Needed*, [GAO-07-733](#) (Washington, D.C.: May 14, 2007); *Business Systems Modernization: Strategy for Evolving DOD's Business Enterprise Architecture Offers a Conceptual Approach, but Execution Details Are Needed*, [GAO-07-451](#) (Washington, D.C.: Apr. 16, 2007); and [GAO-07-310](#).

establishing a management framework for overall business transformation. For example, the Deputy Secretary of Defense chairs an advisory board called the Deputy's Advisory Working Group, which DOD officials have stated has a role in overall business transformation. The Deputy's Advisory Working Group started in 2006 as an ad hoc committee, co-chaired by the Deputy Secretary of Defense and Vice Chairman of the Joint Staff, to manage the planning process for DOD's strategic plan, the Quadrennial Defense Review.¹⁰ According to DOD officials, this working group is to provide departmentwide strategic direction on various issues that it chooses. Many of the same individuals who sit on the Defense Business Systems Management Committee also serve on the Deputy's Advisory Working Group. However, opinions differ within DOD as to whether the committee or the working group will function as the primary body responsible for overall business transformation, and the relationship between these two entities has not been formalized. In addition, opinions differ between the two entities regarding the definition of DOD's key business areas, with the Defense Business Systems Management Committee and the Business Transformation Agency using a broader definition of business processes than the Deputy's Advisory Working Group and its supporting organizations. These differences hinder DOD's ability to leverage the business systems modernization management framework to fully address broader business transformation efforts. Until the department institutionalizes a management framework that encompasses all aspects of business transformation, including establishing overall responsibility for and defining what is included in business transformation, DOD will be unable to integrate related initiatives into a sustainable, enterprisewide approach and to resolve weaknesses in business operations that we have shown are at high risk of waste, fraud, and abuse.

¹⁰ Congress mandated that DOD conduct a review every 4 years to examine the national defense strategy, force structure, force modernization, infrastructure, budget plan, and other elements of the defense program and policies of the United States with a view toward determining and expressing the defense strategy of the United States.

Two Critical Challenges Affect DOD's Success in Maintaining and Furthering Its Progress in Overall Business Transformation

DOD faces two critical challenges to achieving successful business transformation. First, DOD does not have a comprehensive, integrated, and enterprisewide plan or set of linked plans supported by a planning process that sets a strategic direction for overall business transformation efforts and monitors progress. Second, DOD lacks a full-time leadership position dedicated solely to the planning, integration, and execution of business transformation efforts. Until the department establishes a comprehensive, integrated planning process and establishes full-time sustained leadership, DOD will be challenged to integrate related initiatives into a sustainable, enterprisewide approach and to resolve weaknesses in business operations that we have shown are at high risk of waste, fraud, and abuse.

DOD Has Not Developed a Comprehensive, Integrated, and Enterprisewide Plan or Set of Plans Supported by a Planning Process for Business Transformation Efforts

DOD continues to be challenged in its business transformation efforts because it has not developed a comprehensive, integrated, and enterprisewide action plan or set of linked plans for business transformation that is supported by a comprehensive planning process. Such a plan or set of plans would help set strategic direction for overall business transformation efforts, prioritize initiatives and resources, and monitor progress through the establishment of performance goals, objectives, and rewards. Our prior work has shown that this type of plan should cover all of DOD's key business functions; contain results-oriented goals, measures, and expectations that link institutional, unit, and individual performance goals and expectations to promote accountability; and establish an effective process and related tools for implementation and oversight.¹¹ Furthermore, such an integrated business transformation plan would be instrumental in establishing investment priorities and guiding the department's key resource decisions.

Our analysis shows that DOD does not have an integrated plan in place and has not fully developed a comprehensive planning process. For example, we analyzed the enterprise transition plan and determined that the goals and objectives in the enterprise transition plan were not clearly linked to the goals and objectives in the Quadrennial Defense Review, DOD's highest level strategic plan. In addition, the enterprise transition plan is not based on a strategic planning process. For example, it does not provide a complete assessment of DOD's progress in overall business

¹¹See for example, [GAO-07-310](#), [GAO-07-229T](#), [GAO-06-1006T](#), [GAO-05-520T](#), and [GAO-02-497T](#).

transformation efforts aside from business systems modernization. Furthermore, while the enterprise transition plan contains goals and milestones related to business systems, the plan does not contain results-oriented goals and measures that assess overall business transformation. Finally, we determined that DOD's business transformation efforts are currently guided by multiple plans that are developed and maintained by various offices within DOD.

DOD officials acknowledged our analysis that DOD does not have an integrated plan in place. Business Transformation Agency officials see the enterprise transition plan as the highest level plan for business transformation but acknowledge that it does not currently provide an assessment of the department's overall approach to business transformation. Business Transformation Agency officials also acknowledged that they are challenged to work across various offices to develop an integrated planning process and results-oriented measures to assess overall business transformation. These officials added that DOD is starting to develop a family of linked plans to guide and monitor business transformation. Specifically, DOD's March 2007 update to the enterprise transition plan includes an approach that is intended to align other business plans with the enterprise transition plan,¹² establish working relationships among plan owners across DOD's major business areas, and identify interdependencies among their products. However, according to Business Transformation Agency officials and others within DOD, the alignment currently involves only ensuring data consistency across DOD's major business plans and does not yet encompass the full integration they envision. In addition, it is not clear from discussions with these officials which committee or office within DOD will be responsible for developing a family of linked plans and a supporting comprehensive planning process.

¹²The plans that DOD is looking to align with the enterprise transition plan are the (1) Quadrennial Defense Review, DOD's strategic plan; (2) Performance and Accountability Report that provides an overview of DOD's financial condition and includes an assessment of annual program performance; (3) Financial Improvement and Audit Readiness Plan that addresses DOD's financial management high-risk area; (4) Defense Acquisition Transformation Report to Congress that summarizes how implementation plans are used to reform DOD's acquisition system; (5) Supply Chain Management Improvement Plan that addresses DOD's supply chain high-risk area; (6) Focused Logistics Joint Functional Concept and the Focused Logistics Campaign Plan that address DOD's logistics strategy; (7) Human Capital Strategy that addresses changes to DOD's personnel system; and (8) Defense Installations Strategic Plan that addresses the evolution of the strategic planning process for DOD real property and installations' lifecycle assets.

The Defense Science Board,¹³ the Defense Business Board,¹⁴ and the Institute for Defense Analyses¹⁵ agree with our analysis. These organizations have issued reports supporting DOD's need for an integrated planning process for business transformation. In a February 2006 report on military transformation,¹⁶ the Defense Science Board concluded that DOD needed, but did not have, a multiyear business plan capable of relating resources to mission purposes. In addition, the report said that confusion existed over roles in identifying needs, proposing and choosing solutions, executing programs, and overseeing performance. The Defense Science Board concluded that an effective business plan would give decision makers a clear understanding of the impact of resource decisions. The Defense Business Board arrived at a similar conclusion. In a May 2006 report on governance at DOD,¹⁷ the Defense Business Board reported that a challenge facing DOD's business activities was the move from a hierarchical, functional approach to an enterprisewide, cross-functional, horizontal approach. The Defense Business Board recommended that DOD develop a strategic plan that contains clear goals and supporting objectives, including outcome-based metrics. In a December 2006 report about the need for a CMO at DOD,¹⁸ the Institute for Defense Analyses recommended that DOD adopt a planning structure that would ensure that the strategic-level directions and priorities drive day-to-day planning and execution. The Institute for Defense Analyses said that the planning

¹³The Defense Science Board, composed of members designated from civilian life by the Under Secretary of Defense for Acquisition, Technology, and Logistics, advises the Secretary of Defense; the Deputy Secretary of Defense; the Under Secretary of Defense for Acquisition, Technology, and Logistics; and the Chairman of the Joint Chiefs of Staff on scientific, technical, manufacturing, acquisition process, and other matters of special interest to DOD.

¹⁴The Defense Business Board provides the Secretary of Defense, through the Deputy Secretary of Defense, independent advice and recommendations on effective strategies for the implementation of best business practices of interest to DOD.

¹⁵The Institute for Defense Analyses is a nonprofit corporation that administers three federally funded research and development centers to provide objective analyses of national security issues, particularly those requiring scientific and technical expertise, and conduct related research on other national challenges.

¹⁶Defense Science Board, *Defense Science Board Summer Study On Transformation: A Progress Assessment Volume I* (Washington, D.C.: February 2006).

¹⁷Defense Business Board, *Governance-Alignment and Configuration of Business Activities Task Group Report* (Washington, D.C.: May 31, 2006).

¹⁸Institute for Defense Analyses, *Does DOD Need a Chief Management Officer?* (Alexandria, Va.: December 2006).

structure should contain top-level goals, approaches, and resources and link these goals to the required resources within the executing activities.

DOD Has Not Established a Full-time Leadership Position at the Right Level Dedicated Solely to Business Transformation Efforts

DOD continues to lack sustained leadership focused solely on business transformation. We have reported that as DOD and other agencies embark on large-scale organizational change initiatives, similar to defense business transformation, there is a compelling need to, among other things, (1) elevate attention on management issues and transformational change efforts, (2) integrate various key management and transformation efforts into a coherent and enterprisewide approach, and (3) institutionalize accountability for addressing transformation needs and leading change. Without such leadership, DOD is at risk of not being able to sustain and ensure the success of its overall business transformation efforts, and its progress is at risk of being another in a long line of unsuccessful management reform initiatives.¹⁹

The Deputy Secretary of Defense has elevated the attention paid to business transformation efforts, and he and other senior leaders have clearly shown a commitment to business transformation and to addressing deficiencies in the department's business operations. For example, the Deputy Secretary has been actively engaged in monthly meetings of both the Defense Business Systems Management Committee and the Deputy's Advisory Working Group, and directed the creation of the Business Transformation Agency to support the Defense Business Systems Management Committee. However, these organizations do not provide the sustained leadership needed to successfully achieve overall business transformation. The Defense Business Systems Management Committee's representatives consist of political appointees whose terms expire when administrations change and the roles of the Deputy's Advisory Working Group have not been institutionalized in DOD directives or charters. Without this, the committee's very existence and role could change within or between administrations.

A broad-based consensus exists among GAO and others that the status quo is unacceptable and that DOD needs a CMO to provide leadership over

¹⁹For a discussion of DOD's prior management initiatives, see GAO, *Defense Management: Additional Actions Needed to Enhance DOD's Risk-Based Approach for Making Resource Decisions*, [GAO-06-13](#) (Washington, D.C.: Nov. 15, 2005), and *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, [GAO-03-192SP](#) (Washington, D.C.: Oct. 4, 2002).

business transformation efforts, although there are different views concerning the characteristics of a CMO, such as whether the position should be codified in statute, established as a separate position from the Deputy Secretary of Defense, designated as Executive Level II or Level III, subject to a term appointment, or supported by a deputy CMO. As required by Congress, DOD commissioned studies of the feasibility and advisability of establishing a deputy secretary of defense for management to oversee the department's business transformation process. As part of this effort, the Defense Business Board, an advisory panel, examined various options and, in May 2006, endorsed the CMO concept. Furthermore, in December 2006, the Institute for Defense Analyses issued a study that reported on various options for the creation of a CMO position and recommended that a CMO is needed at DOD. In response to the Institute for Defense Analyses report, DOD submitted a letter to Congress in May 2007 outlining the department's position on a CMO at DOD. However, this position does not adequately address the key leadership challenge that we discuss in this report—that is, the lack of a senior leader, at the right level, with appropriate authority, to focus full time on overall business transformation. In summary, DOD is proposing to Congress that the role of a CMO be assigned to the Deputy Secretary of Defense. While the Deputy Secretary may be at the right level, with the appropriate authority and responsibility to transform business operations, we have testified that the demands placed on him and other senior leaders make it difficult for them to maintain the oversight, focus, and momentum needed to resolve business operational weaknesses, including the high-risk areas. Finally, DOD does not agree with codifying the CMO role in legislation, stating that doing so would restrict the flexibility of future Presidents and Secretaries of Defense to build an integrated management team. DOD would rather leave the assignment of the CMO role to the discretion of the Secretary of Defense, and DOD plans to formalize the Deputy Secretary's CMO and business transformation duties in a DOD directive.

Because of the complexity and long-term nature of business transformation, we have long advocated the establishment of a CMO position at DOD with significant authority and experience and a term that would provide sustained leadership and the time to integrate the department's overall business transformation efforts. Major transformation initiatives often take at least 5 to 7 years in large private and public sector organizations. Codifying a separate, full-time CMO position in statute would ensure continuity and help to create unambiguous expectations and underscore congressional desire to follow a professional, nonpartisan, sustainable, and institutional approach to this position. Without formally designating responsibility and accountability

for results, reconciling competing priorities among various organizations and prioritizing investments will be difficult and could impede the department's progress in addressing deficiencies in key business areas. A full-time and separate CMO position could devote the necessary time and effort to further and sustain DOD's progress and would be accountable for planning, integrating, and executing the department's overall business transformation efforts. Further, we believe that the CMO should be at Executive Level II and report directly to the Secretary of Defense so that the position has the stature needed to successfully address integration challenges, address DOD's high-risk areas with a strategic and systematic approach, and prioritize investments across the department. By subsuming the CMO duties within the Deputy Secretary of Defense position as DOD advocates, the CMO would be at level II, but not subject to a term or able to focus full-time attention on business transformation. Finally, we advocate an extended term appointment for the CMO of at least 5 to 7 years so that the position could span administrations to sustain business transformation when key personnel changes occur.

Conclusions

DOD's efforts at business transformation consist of various entities whose interrelationships are not clearly articulated and numerous plans that are not integrated across the department. Currently, there is no single individual, office, or integrated plan within DOD to provide a complete and focused assessment of the department's business transformation efforts. DOD continues to face formidable challenges, both externally with its ongoing military operations and internally with the long-standing problems of fraud, waste, and abuse. Pervasive, decades-old management problems related to its business operations affect all of DOD's major business areas. While DOD has taken positive steps to address these problems, our previous work has shown a persistent pattern of limited scope of focus and a lack of integrated planning and sustained leadership. In this time of growing fiscal constraints, every dollar that DOD can save through improved economy and efficiency of its operations is important to the well-being of our nation and the legitimate needs of the warfighter. DOD can no longer afford to address business transformation as it has in the past. Unless DOD elevates and integrates its efforts, billions of dollars will continue to be wasted every year. Furthermore, without strong and sustained leadership, both within and across administrations, DOD will likely continue to have difficulties in maintaining the oversight, focus, and momentum needed to implement and sustain the needed reforms to its business operations. In this regard, we continue to believe that a CMO whose sole focus is to integrate and oversee the overall transformation of the department's business operations remains key to DOD's success.

Recommendations for Executive Action

To ensure successful and sustained business transformation at DOD, we recommend that the Secretary of Defense take the following two actions:

- Institutionalize in directives the roles, responsibilities, and relationships among various business-related entities and committees, such as the Defense Business Systems Management Committee, investment review boards, the Business Transformation Agency, and the Deputy's Advisory Working Group, and expand the management framework to capture overall business transformation efforts, rather than limit efforts to modernizing business systems.
- Develop a comprehensive strategic planning process for business transformation that results in a comprehensive, integrated, and enterprisewide plan or set of interconnected functional plans that covers all key business areas and provides a clear strategic direction, prioritizes initiatives, and monitors progress across the department.

Matter for Congressional Consideration

Given DOD's view that the Deputy Secretary of Defense should be assigned CMO duties, Congress should consider enacting legislation to establish a separate, full-time position at DOD with the significant authority and experience and a sufficient term to provide focused and sustained leadership and momentum over business transformation efforts.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD generally concurred with our recommendations that the department institutionalize a management framework and develop a comprehensive strategic planning process for business transformation, and disagreed with our matter for congressional consideration that Congress enact legislation to establish a separate, full-time CMO position. The department's comments are reprinted in appendix II. In its overall comments, DOD expressed concern about what it characterized as GAO's belief that the department placed improper emphasis on business systems modernization to the detriment of overall business transformation efforts. In particular, DOD stated that business systems modernization is a critical step in achieving overall business transformation, and that lessons learned and governance structures developed for modernizing business systems acquisition processes are being evaluated for implementation beyond the business side. It further stated that the Deputy's Advisory Working Group and the Defense Business Systems Modernization Committee both focus more broadly on defense business transformation. DOD also believed we had overstated the nature of "broad-based consensus" between GAO, the Institute for Defense Analyses, and the Defense Business Board about the

need for a CMO in DOD, noting that the Institute for Defense Analyses had examined four alternate methods for institutionalizing the roles of the CMO and ultimately supported the department's position that those duties be vested in the Deputy Secretary of Defense.

We disagree with DOD's characterization of our report with respect to the emphasis of the department's efforts and the nature of the broad-based consensus on the need for a CMO. The report specifically gives DOD credit for progress to date on setting up an overall framework for broader business transformation, and in no way suggests that any specific steps taken regarding modernizing business systems are detrimental to this progress. Rather, we note that the framework, as currently structured and implemented, focuses on business systems, is a foundation to build upon, and needs to be expanded to more fully address broader transformation issues. The report also recognizes the establishment of the Deputy's Advisory Working Group and the Defense Business Systems Modernization Committee. While DOD suggests these two groups focus more broadly on business transformation, our work shows that DOD has not clearly defined or institutionalized interrelationships, roles and responsibilities, or accountability for broader business transformation among these entities. Also, differences of opinion exist within DOD about the roles and scope of the various entities. Further, contrary to DOD's view, we did not overstate the nature of the "broad-based consensus" regarding the need for a CMO. In fact, the Defense Business Board, Institute for Defense Analyses, and the department are on record in their support for establishing a CMO at DOD. Specifically, the board endorsed the CMO concept in a study completed in May 2006, the Institute for Defense Analyses identified the need for a CMO in its study completed in December 2006, and DOD, in a May 2007 letter, informed Congress of its view that the Deputy Secretary of Defense should assume CMO responsibilities. The Institute for Defense Analyses also recommended that Congress establish a new deputy CMO position with an Executive Level III term appointment of 7 years to provide full-time support to the Deputy Secretary in connection with business transformation issues. We believe these actions demonstrate a broad-based consensus regarding the need for a CMO and, therefore, that the status quo is unacceptable. Notwithstanding these positions, we also recognize, as stated in the report, that there are different views concerning the characteristics of a CMO, such as whether the position should be codified in statute, established as a separate position from the Deputy Secretary, designated as Executive Level II or Level III, or subject to a term appointment. As stated in this report and numerous testimonies, we believe the CMO position should be

codified in statute as a separate and full-time position, designated as Executive Level II, and subject to an extended term appointment.

In addition to its overall comments, DOD provided detailed comments on our two recommendations. Specifically, DOD concurred with our first recommendation that the department institutionalize in directives the roles, responsibilities, and relationships among various business-related entities and committees and expand the management framework beyond business systems modernization to capture overall business transformation efforts. In fact, DOD stated explicitly in its comments that the department is a strong advocate for institutionalizing, in its DOD Directives System, the functions, responsibilities, authorities, and relationships of its principal officials and the management processes they oversee. DOD added that the Deputy Secretary of Defense has issued a directive-type memorandum on the management of the Deputy's Advisory Working Group and that a draft DOD directive has been prepared to define the functions of the Defense Business Systems Management Committee and elaborate its relationships with the Defense Business Transformation Agency and other key business-related entities in the department. We recognize that directives and memorandums, in some cases, do exist, and that DOD plans to finalize additional directives, particularly for the Defense Business Systems Management Committee. As noted in our report, during the course of our review, we found that DOD has not clearly defined or institutionalized interrelationships, roles and responsibilities, or accountability for establishing a management framework for overall business transformation, and that differences of opinion exist within the department regarding which of the various senior leadership committees will function as the primary body responsible for overall business transformation. Therefore, we encourage DOD to ensure that its efforts to institutionalize its management framework for business transformation in directives specifically address these matters, and once directives are finalized, to take steps to clearly communicate the framework and reinforce its implementation throughout the department.

Further, DOD partially concurred with our second recommendation that the Secretary of Defense develop a comprehensive strategic planning process for business transformation that results in a comprehensive, integrated, and enterprisewide plan or set of plans. Specifically, DOD stated that it has already begun to expand the scope of the enterprise transition plan to become a more robust enterprisewide planning document and to evolve this plan into the centerpiece strategic document for transformation. DOD added that as the enterprise transition plan evolves, it will continue to improve in aligning strategy with outcomes,

identifying business capability gaps, prioritizing future needs, and developing metrics to measure achievement. DOD also stated that it will continue to evolve its family of plans to address our recommendation. While DOD's proposed actions to address both of our recommendations appear to be positive steps, the key to their success will be in the details of their implementation. Moreover, we continue to believe that these efforts alone will not be sufficient to bring about the desired transformation. More specifically, efforts to institutionalize and broaden the scope of a management framework and develop a comprehensive strategic planning process for business transformation will not be successful without a CMO to guide and sustain these efforts.

However, DOD disagreed with our matter for congressional consideration that Congress consider enacting legislation to establish a separate, full-time CMO position at DOD to provide focused and sustained leadership and momentum over business transformation efforts, stating that no official below the Secretary of Defense, except the Deputy Secretary, has the rank and perspective to provide the strategic leadership and authoritative decision making necessary to ensure implementation of departmentwide business activities. DOD stated that the Deputy Secretary of Defense is to be designated as the CMO and that an internal directive is being revised to that effect. DOD also stated its belief that the continuity of business transformation is best ensured by institutionalized processes and organizations, the knowledge and perspective of DOD's career workforce, clear and mutually agreed to economy and efficiency goals, and the due diligence of future administrations and Members of Congress to nominate and confirm highly qualified executives to serve at DOD. Further, DOD stated that the establishment of an additional official at the under secretary level to lead business transformation would generate dysfunctional competition among the five other Under Secretaries by creating confusion and redundancy in their roles and responsibilities. DOD added that the Deputy Secretary of Defense as the CMO has sufficient officials available to assist in managing the department and the authority necessary to refine the department's management structure to continue business management reform and integrate business transformation activities with the operational work of the department.

Because of the complexity and long-term nature of business transformation, we have consistently reported and testified that DOD needs a CMO with significant authority and experience, a term that would provide sustained leadership, and the time to integrate overall business transformation efforts. In our view, DOD's plan to subsume the CMO duties within the Deputy Secretary of Defense position and to establish

this action by directive would place the responsibilities at the appropriate level—Executive Level II—but would result in a position not subject to a term or able to focus full-time attention on business transformation. Transformation is a long-term process, especially for large and complex organizations such as DOD. Therefore, a term of at least 5 to 7 years is recommended to provide sustained leadership and accountability. To ensure continuity, it should become a permanent position, with the specific duties authorized in statute. As stated in our report, we believe codifying a separate, full-time CMO position in statute would also help to create unambiguous expectations and underscore congressional desire to follow a professional, nonpartisan, sustainable, and institutional approach to this position.

We recognize that the Deputy Secretary of Defense has officials and institutional structures available to support the transformation process; however, transformation cannot be achieved through a committee approach. Ultimately, a person at the right level, with the right type of experience, in a full-time position with a term appointment, and with the proper amount of responsibility, authority, and accountability is needed to lead the effort. Contrary to DOD's view, we believe the establishment of a separate CMO position would bring leadership, accountability, focus, and direction to the department's efforts rather than creating dysfunctional competition and causing confusion. The CMO would not assume the responsibilities of the Under Secretaries of Defense or any other officials. Rather, the CMO would be responsible and accountable for planning, integrating, and executing the department's overall business transformation effort, and would be able to give full-time attention to business transformation. As such, the CMO would be a key ally to other officials in the department in dealing with the business transformation process. Without formally designating responsibility and accountability for results, reconciling competing priorities among various organizations and prioritizing investments will be difficult and could impede progress in addressing deficiencies in key business areas. We believe DOD's position essentially represents the status quo, and that in the interest of the department and American taxpayers, the department needs a CMO to help transform its key business operations and avoid billions of dollars in waste each year.

We are encouraged that this matter is now before Congress as it prepares to deliberate on pending legislation that calls for statutorily establishing a CMO for DOD. In particular, we believe any resulting legislation should include some important characteristics for the CMO position. Specifically, a CMO at DOD should be codified in statute as a separate and full-time

position that is designated as an Executive Level II appointment and reports directly to the Secretary of Defense so that the individual in this position has the stature needed to successfully address integration challenges, adjudicate disputes, and monitor progress on overall business transformation across defense organizations. In addition, the position should be subject to an extended term appointment such that the CMO would span administrations to sustain transformation efforts when key personnel changes occur. Transformation is a long-term process, especially for large and complex organizations such as DOD. Therefore, a term of at least 5 to 7 years is recommended to provide sustained leadership and accountability. In addition, we would recommend a requirement for advance notification should the Secretary decide to remove an individual from the CMO position.

We are sending copies of this report to interested congressional committees and the Secretary of Defense. We will also make copies available to others upon request. This report is also available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-9619 or pickups@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other staff members who made key contributions to this report are listed in appendix III.



Sharon L. Pickup
Director, Defense Capabilities and Management

List of Committees

The Honorable Daniel K. Inouye
Chairman

The Honorable Ted Stevens
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Carl Levin
Chairman
The Honorable John S. McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Daniel K. Akaka
Chairman
The Honorable George V. Voinovich
Ranking Member
Subcommittee on Government Management, the Federal Workforce,
and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable John P. Murtha
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Ike Skelton
Chairman
The Honorable Duncan L. Hunter
Ranking Member
Committee on Armed Services
House of Representatives

Appendix I: Scope and Methodology

To assess the progress the Department of Defense (DOD) has made in setting up a management framework for business transformation, we reviewed and analyzed relevant documents and current literature about the department's business transformation and interviewed key DOD senior leaders and defense experts. Documents that we used for our review included, but were not limited to, (1) GAO reports related to DOD's high-risk areas, including business systems modernization, development of the business enterprise architecture, and organizational transformation; (2) DOD products, including the 2006 Quadrennial Defense Review and updates to DOD's enterprise transition plan; (3) DOD's annual reports on business transformation to Congress (and biannual updates); (4) DOD testimony to Congress on the status of business transformation; and (5) meeting minutes and briefing documents, such as those from the Defense Business Systems Management Committee, the Deputy's Advisory Working Group, and the Defense Business Board, related to DOD's business transformation, governance, and management reforms. We obtained testimonial evidence from officials representing the Business Transformation Agency, offices within the Office of the Secretary of Defense (including the Program Analysis and Evaluation Directorate; Office of the Director, Administration and Management; and the Office of Business Transformation), the Joint Staff, the military departments, and defense experts.

To assess the challenges DOD faces in maintaining and ensuring success in its overall business transformation efforts, we compared DOD's efforts to key practices we found to be consistently at the center of successful organizational mergers and transformations, specifically, establishing a coherent mission and integrated strategic goals to guide the transformation and ensuring that top leadership drives the transformation.¹ We also reviewed relevant plans and related documents to assess integration among DOD's various business-related plans. These plans included DOD's Quadrennial Defense Review, Performance and Accountability Report, Financial Improvement and Audit Readiness Plan, Defense Acquisition Transformation Report to Congress, Supply Chain Management Improvement Plan, Focused Logistics Joint Functional Concept and the Focused Logistics Campaign Plan, Human Capital Strategy, and the Defense Installations Strategic Plan. In addition, we reviewed proposals for a chief management officer (CMO) at the

¹GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

department and obtained testimonial evidence from key DOD officials and defense experts. As part of this effort, we considered comments raised by several public and private sector officials during a forum sponsored by the Comptroller General in April 2007. The purpose of this forum was to discuss the merits of a CMO or chief operating officer concept. We also analyzed congressionally mandated CMO reports prepared by the Defense Business Board and the Institute for Defense Analyses and reviewed DOD's response to the study prepared by the Institute for Defense Analyses.

We conducted our work from September 2006 through July 2007 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Department of Defense



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

AUG 17 2007

Ms. Sharon L. Pickup
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Pickup,

This is the Department of Defense (DoD) response to the GAO draft report GAO-07-1072, "DEFENSE BUSINESS TRANSFORMATION: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership," dated July 13, 2007, (GAO Code 350902).

The Department appreciates GAO's interest in the progress of Defense Business Transformation and values our partnership as we strive to achieve our mutual goal of agile, effective, and efficient defense business operations.

Attached are the Department's responses to GAO's recommendations in the draft report and comments on the Matter for Congressional Consideration. The Department concurs with the first recommendation and partially concurs with the second. However, we are concerned about GAO's belief that we place an improper emphasis on business systems modernization to the detriment of our overall business transformation efforts, and that GAO overstated the nature of the "broad-based consensus" between GAO, the Institute for Defense Analysis (IDA), and the Defense Business Board about the need for a Chief Management Officer in the DoD. The IDA report, for example, which praised the Department's efforts to improve its business management, examined four alternate methods of institutionalizing the roles of the CMO and ultimately supported the Department's position that those duties be vested in the Deputy Secretary of Defense.

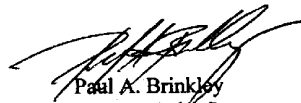
Business systems modernization is a critical step in achieving overall Defense business transformation. The lessons learned and new governance structures developed through the modernization of the Department's business systems acquisition process are already being evaluated for implementation beyond the business side of the Department.

Additionally, the Deputy Secretary's Advisory Working Group and the Defense Business Systems Modernization Committee both focus more broadly on Defense business transformation than just business systems modernization. The Deputy Secretary's Advisory Working Group oversees management, integration, and performance across the Department. The DBSMC is integral in driving the Department's focus on process transformation and Continuous Process Improvement. It oversees the development and implementation of the Business Capability Lifecycle and Enterprise Risk Assessment Methodology to enable rapid delivery of business capabilities. It also



guides the evolution of the Enterprise Transition Plan as it becomes a more robust and wide-reaching planning document.

Finally, aligning the strategy, controls, people, processes, and technology to truly effect enterprise-wide change in an organization as large and complex as the Department of Defense is an enormous undertaking. However, we believe that our persistent focus on overall business transformation will enable continued progress. Again, the Department appreciates GAO's interest in the progress of Defense Business Transformation and values our partnership as we strive to achieve our mutual goal of agile, effective, and efficient defense business operations.



Paul A. Brinkley
Deputy Under Secretary of Defense
(Business Transformation)

Attachments:
As stated

**GAO DRAFT REPORT - DATED JULY 13, 2007
GAO CODE 350902/GAO-07-1072**

**“DEFENSE BUSINESS TRANSFORMATION: Achieving Success Requires a Chief
Management Officer to Provide Focus and Sustained Leadership”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense institutionalize in directives the roles, responsibilities, and relationships among various business-related entities and committees, such as the Defense Business Systems Management Committee, investment review boards, the Business Transformation Agency, and the Deputy Advisor’s Working Group, and expand the management framework to capture overall business transformation efforts, rather than limit efforts to modernizing business systems.

DOD RESPONSE: Concur. The Department is a strong advocate for institutionalizing in its DoD Directives System the functions, responsibilities, authorities and relationships of its principal officials and the management processes they oversee. The DoD Directives System consists of directive-type memoranda, directives, instructions, and other publications. These documents are essential internal controls and as such are key elements of the Department’s overall management framework. The Deputy Secretary has issued a directive-type memorandum on the management of the Deputy Secretary’s Advisory Working Group and a DoD directive is drafted to definitize the functions of the DBSMC and elaborate its relationships with the Defense Business Transformation Agency and other key business-related entities in the Department. Additionally, both the DBSMC and the Investment Review Boards, which it oversees, have had detailed charters from their inception. Also, the DoD directive through which the Secretary of Defense assigns responsibilities to the Deputy Secretary is being revised to provide for the assignment of broad Chief Management Officer duties to the Deputy Secretary.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense develop a comprehensive strategic planning process for business transformation that results in a comprehensive, integrated, and enterprise-wide plan or set of interconnected functional plans that covers all key business areas and provides a clear strategic direction, prioritizes initiatives, and monitors progress across the Department.

DOD RESPONSE: Partially concur. The Department of Defense Enterprise Transition Plan (ETP), initially developed in 2005, is one of a series of foundation documents, including the Business Transformation Guidance, which outlines the strategic planning process for the Department’s business transformation at all levels. The ETP currently serves as the Business Mission Area Strategic Plan and as the central document within

the family of plans for DoD business transformation efforts. The ETP is reviewed and approved by the Defense Business Systems Management Committee (DBSMC) annually in September and updated annually in March. The ETP describes a systematic approach for the transformation of business operations within DoD and is driven by a clear set of priorities and a targeted set of business capabilities enabled by key programs.

The Department has already begun to expand the scope of the ETP to become a more robust enterprise-wide planning document, including Continuous Process Improvement initiatives. Currently, the ETP aligns with the Quadrennial Defense Review and other planning papers. Near term publications of the ETP will ensure alignment with the Department's other high level strategy documents such as the President's Management Agenda, the National Defense Strategy, and the Strategic Planning Guidance to ensure accordance with the Department's overall strategic vision. As the ETP evolves, it will continue to improve in:

- Aligning strategy with outcomes through the implementation of initiatives
- Identifying business capability gaps
- Prioritizing future needs
- Developing metrics to measure achievement

This process provides DoD with a repeatable process, alignment to Department mission and vision, and delivery of capabilities rather than systems. Maintaining focus on transformation allows DoD to support a more capable military force, more financially accountable organizations, and a more efficient use of taxpayer dollar.

DoD will continue to evolve its family of plans to address GAO's recommendation. The ETP will continue to provide a unifying framework and guidance at the enterprise, component, and program levels across DoD as the centerpiece strategic document for transformation. The Financial Improvement and Audit Readiness plan, Supply Chain Management Improvement Plan, and others, both current and future, will augment the ETP and provide further details specific to their respective business areas.

MATTER FOR CONGRESSIONAL CONSIDERATION

Given DoD's view that the Deputy Secretary of Defense be assigned Chief Management Officer (CMO) duties, Congress should consider enacting legislation to establish a separate, full-time position at DoD with the significant authority, experience, and a sufficient term to provide focused and sustained leadership and momentum over business transformation efforts.

DOD RESPONSE: As the Deputy Secretary stated in his May 11, 2007 letter to the Committees on Armed Services of the Senate and the House, no official below the Secretary, except the Deputy Secretary, has the rank and perspective to provide the strategic leadership and authoritative decision making necessary to ensure implementation and integration of Department-wide business activities. This position

was also emphasized by the Institute for Defense Analyses in its December 2006 report on a Defense Chief Management Officer.

The Department believes that the continuity of business transformation is best assured by four factors:

- Institutionalized processes and organizations that enable the diverse elements of the enterprise to communicate, resolve differences, and implement interdependent tasks
- The knowledge and perspective of the Department's career workforce
- Clear, mutually agreed to effectiveness and economy goals
- The due diligence of future Administrations and members of Congress to nominate and confirm highly qualified executives to serve in the Department of Defense.

The Department does not believe that creating a tenured official is an effective means to ensure progress in business transformation. For example, the establishment of an additional official at the Under Secretary level to lead business transformation would generate dysfunctional competition among the five other Under Secretaries by creating confusion and redundancy in their discretionarily-assigned and statutorily-prescribed roles and responsibilities. Additionally, it would accrue unnecessary administrative overhead into the headquarters of the Department of Defense.

The Department's view is that the Deputy Secretary of Defense as the Chief Management Officer has sufficient officials available to him to assist in managing the Department and has the authority necessary to further refine the Department's management structure to continue business management reform and integrate business transformation activities with the operational work of the Department in defending the Nation and supporting its fighting forces.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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